

INSURANCE FRAUD NEWSLETTER

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Mike Huckabee
Governor



Mike Pickens
Insurance Commissioner

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Insurance Fraud Investigation Division

| | |
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| Martin J. Nevrla | Director |
| S. D. Roff | Assistant Director |
| Clay Simpson | Chief Counsel |
| Raymond Boyles | Staff Attorney |
| Dan Reber | Staff Attorney |
| Bill Bryan | Investigator |
| Patrick O'Kelley | Investigator |
| Todd Shaddox | Investigator |
| Monty Vickers | Investigator |
| Brian White | Investigator |
| Ken Wilder | Investigator |
| Shirley Pegg | Fiscal/Support Mgr. |
| Evelyn Brown | Admin. Assistant |
| L. G. Sanders | Admin. Assistant |

MESSAGE FROM THE DIRECTOR

Insurance issues are front page news as part of the financial impact of the tragic events of September 11th. Expedited payment of claims and insurer insolvency are of prime concern to the industry, regulators and law-makers. Relevant to those issues will be the impact of fraudulent activity.

It is still too early to predict the level of anticipated fraudulent activity (although not its existence) and how effective any response will be. Insurers have already announced that claims which would have normally been further scrutinized due to the presence of one or more "red flags" will most likely be paid and dealt with at a later time.

Although the impact on state fraud bureaus should be aimed mainly at site centers such as New York and its immediate neighbors, the impact could be felt in many states away from the epicenter of events, including Arkansas. Georgia has already filed criminal charges on two false life insurance claims related to the World Trade Center.

Those who organize staged collision schemes and operate medical mills away from the site of the disaster can be expected to take advantage of the resource crisis to push fraudulent claims through the system. This was the experience of North Carolina in the wake of the

flood disaster caused by a series of hurricanes in 1999.

Members of the insurance community should maintain a high level of vigilance in the coming year and should contact the Fraud Investigation Division if suspicious activity is observed.

Martin J. Nevrla

On the Horizon



◆ State and federal regulators will be stepping up civil and criminal enforcement actions against promoters and sales agents of so-called "ERISA plans". Marketed as a cheaper alternative to traditional health insurance, they are typically promoted as exempt from state insurance regulation; however, they should be assumed to be illegal unless otherwise cleared by the Insurance Department. Agents involved in selling these plans should expect revocation of their license and exposure to civil and criminal penalties.

◆ Insurers will soon be required to establish anti-money laundering programs due to passage of the USA Patriot Act, legislation aimed primarily at terrorism. Previous money laundering legislation has exempted the insurance industry from requirements imposed on the banking and securities industries.

FRAUD REFERRAL UPDATE

- To remove your name from our mailing list, contact L. G. Sanders at 501-371-2790
- Check our website at: <http://www.accessarkansas.org/insurance/>
- Our toll-free hotline is 1-866-660-0888

SPOTLIGHT ON FRAUD



Criminal Charges Filed Against Former Insurance Agency Owner

Six felony charges have been filed against Debbie Hagan-Sherwin, the former president and CEO of the now defunct Little Rock-based Hagan Agency, Inc. Ms. Hagan-Sherwin's license was revoked by the Arkansas Insurance Department in December 1999.

The charges against Ms. Hagan-Sherwin allege that she violated the Arkansas Insurance Code by divert-



ing funds from trust accounts to pay the operating expenses of The Hagan Agency. Each count carries a maximum sentence of up to 20 years imprisonment and a maximum fine of \$15,000.

The charges involve diversion of direct premiums, return premiums and premium financing proceeds, all of which were improperly used to pay operating expenses. "The law requires licensees to hold policyholder funds in trust and to forward them to the individual or company entitled to receive them so consumers will have the protection they purchased", said Marty Nevrla, Director of the Insurance Fraud Investigation Division.

Prior to 1999, The Hagan Agency produced \$75 million annually in premiums, making it one of the largest property and casualty insurance agencies in the State of Arkansas; however, in late 1999 the agency experienced

some financial difficulties, which caused cash flow problems for the company. It was at that time funds held in trust were diverted to meet business operating expenses.

"Insurance agents have a serious responsibility to forward the funds to the proper sources. Businesses or individuals could be ruined if policies are cancelled due to the failure to forward premiums. In this case, fortunately, we have no evidence that any claim was not paid due to the diversion of premiums" Director Nevrla said.

In November 1999, the Insurance Department issued a Directive requiring insurers to provide coverage to insureds that paid premiums to Ms. Hagan-Sherwin, Nevrla explained.

The Insurance Department will also initiate administrative proceedings against Ms. Hagan-Sherwin. The purpose of the administrative proceedings is to address additional trust funds which may have been diverted for operating expenses. "All relevant issues and violations will continue to be investigated," Insurance Commissioner Mike Pickens said. "It was important to proceed in a timely manner on the criminal charges and to present a manageable case from a complex financial services investigation."



CRIMINAL CONVICTIONS

The darkest hour of a man's life is when he sits down to plan how to get money without earning it.-- Horace Greeley

BOBBY RADER, Clark County. Subject knowingly made material false statements and concealed material information concerning his work-related injury for the purpose of obtaining workers' compensation benefits. Subject made material false representations to GCU Insurance regarding a smoke inhalation injury he allegedly suffered while employed by Kinco, Inc. As a result of these false material statements, he received a total of \$69,582.50 in workers' compensation temporary total disability benefits and medical expenses to which he was not entitled. Found guilty at trial to theft of property (Class B felony) and sentenced to 7 years probation, \$15,000.00 fine, payment of court costs and restitution of \$69,582.50.



PATRICIA RADER, Clark County. Subject informed medical providers that her husband, Bobby Rader, could not perform the most basic everyday activities or recognize simple words. Based on information doctors received from subject and the results of evaluations, doctors decided Bobby Rader would require 24-hour home health care and began paying subject as compensation for providing her husband 24-hour home health care. Employment records obtained from subject's separate employment showed she was working an average of 39 hours a week. Subject never informed GCU Insurance she was working elsewhere or that her husband's condition had improved to the point where he did not need 24-hour home health care. Pleaded guilty to insurance fraud (Class D felony) and sentenced to 7 years probation, \$15,000.00 fine (suspended pending probation), payment of court costs, and restitution of \$77,771.44.

BARBARA RAGSDALE, Sebastian County. Subject knowingly made false statements concerning a claim for theft of her vehicle. Subject provided false material information to Interstate Insurance Group and to the Ft. Smith Police Department concerning the disappearance of her automobile. As a result of this false information, Interstate paid \$3,947.18 in insurance benefits for which it was not obligated. Entered a plea of guilty to insurance fraud (Class D felony) and received 5 years suspended imposition of sentence and restitution of \$3,947.18.



JOE ANTHONY WASHINGTON, Benton County. Subject injured his wrist while performing his job duties with Rogers Tool Works and began drawing worker's compensation benefits on November 11th, 1998. In April of 1999, subject began working for McKee Foods as a full time employee. During a deposition under oath, subject denied that he was working or receiving any income from employment. Entered a negotiated plea of guilty to a charge of false swearing (Class A misdemeanor) and received 12 months probation, \$500.00 fine, payment of court costs and restitution of \$500.00.



DAVID GIPSON, Sebastian County. Entered a plea of guilty to arson and received 5 years suspended sentence to run concurrently with the 70 year sentence previously imposed for his conviction on insurance fraud charges related to a staged collision ring.



PHILLIP WARREN STEPHENS and LINDA LOU STEPHENS, Lonoke County. Subjects each pleaded guilty to theft of property through acts of defrauding pre-paid funeral beneficiaries of monies given to them as premium payments. Each subject was sentenced to 11 years imprisonment and was ordered to pay more than \$118,000.00 in restitution.



TIM FOSTER, Columbia County. Subject was a former adjuster with State Farm Insurance. Subject knowingly provided material false information to Farm Bureau concerning a claim for payment with respect to damage on his 1995 Chevrolet pickup. Subject knowingly misrepresented that his 1995 Chevrolet pickup was involved in a deer collision and sustained over \$4,000 in damages. As a result of his false representations, Farm Bureau paid \$4,036.27 to settle his claim. Pleaded guilty to attempted insurance fraud (Class A misdemeanor) and received 1 year suspended imposition of sentence, \$1,000 fine, payment of court costs, 40 hours of community service, and ordered to surrender his insurance license.





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CRIMINAL CONVICTIONS (CONT'D)

KRISTY JONES-SHUTES, RONNIE SIMS AND

DEMETRIUS LEDBETTER, Pulaski County. Subject Shutes was a Sr. Claims Adjuster for Shelter Insurance. Shelter received an anonymous call stating Jones-Shutes was issuing unsupported drafts concerning legitimate claims. An investigation revealed Jones-Shutes issued 34 unsupported drafts to Ledbetter, Sims and other family members while she settled legitimate claims concerning Shelter policyholders.

| | |
|--|---------------------|
| Shelter Insurance Co. Your city, Your State 22222 | 0000 |
| Ronnie Sims and Demetrius Ledbetter | \$ 100,902.00 |
| One Hundred Thousand Nine Hundred and Two Dollars and 00/100 | |
| Motor Vehicle | Kristy Jones-Shutes |
| 0000000 000 000 0 0000 | |

All pleaded guilty to a theft of property (Class B felony). Ledbetter and Sims received 5 years probation, \$500.00 fine plus court costs. Ledbetter was ordered to pay \$3,800 in restitution and Sims ordered to pay \$4,099 in restitution for their involvement in the crime. Jones-Shutes was sentenced to 5 years probation, \$1,000 fine plus court costs, 200 hours of community service, and ordered to pay \$100,902.00 in restitution for her involvement in the crime.

AKIN ARIKAWA, Pulaski County. Subject filed false health claims on behalf of his children in the amount of \$50,267.00 for treatment of cholera while purportedly visiting Nigeria (no such visit occurred). Subject pleaded guilty to insurance fraud, sentence to be imposed upon disposition of subject's related charge of witness bribery.



MEET OUR NEW ATTORNEY

DAN REBER joined the Insurance Fraud Investigation Division in November 2001 after five years with the Pulaski County Prosecutor's Office. He's an avid Razorback fan and enjoys playing golf. He is married and he and his wife, Lisa, have a five-month-old son, Walt.

5th Annual Insurance Fraud Directors Conference To Be Held In Little Rock, Arkansas

The Arkansas Insurance Fraud Investigation Division will host The 5th Annual Insurance Fraud Directors Conference on October 14-16, 2002. The conference will be attended by insurance fraud directors and their senior staff from across the country and will address issues of mutual concern among the states in combating insurance fraud.

